IB

Union Calendar No. 297

106TH CONGRESS
2D SESSION

H. R. 1089

[Report No. 106–547]

To require the Securities and Exchange Commission to require the improved disclosure of after-tax returns regarding mutual fund performance, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

MARCH 11, 1999

Mr. GILLMOR (for himself, Mr. OXLEY, Mr. MARKEY, Mr. TOWNS, Mr. WHITFIELD, Mr. LARGENT, Mr. WAXMAN, Mr. DEAL of Georgia, Mr. BURR of North Carolina, Mr. TAUZIN, and Mr. HALL of Texas) introduced the following bill; which was referred to the Committee on Commerce

MARCH 27, 2000

Additional sponsors: Mr. COX and Mr. BARRETT of Wisconsin

MARCH 27, 2000

Reported with an amendment, committed to the Committee of the Whole House on the State of the Union, and ordered to be printed

[Strike out all after the enacting clause and insert the part printed in italic]

A BILL

To require the Securities and Exchange Commission to require the improved disclosure of after-tax returns regarding mutual fund performance, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

~~**SECTION 1. SHORT TITLE.**~~

~~This Act may be cited as the "Mutual Fund Tax Awareness Act of 1999".~~

~~**SEC. 2. FINDINGS.**~~

~~The Congress finds the following:~~

~~(1) Taxes can be the single biggest cost associated with mutual funds. The average stock fund investor has lost up to 3 percentage points of return every year to taxes.~~

~~(2) The average portfolio turnover rate for an actively managed (nonindex) fund has increased from 30 percent 20 years ago to almost 90 percent today, and average capital gains distributions of growth funds, per share, have more than doubled in the last 10 years.~~

~~(3) If a fund's performance is based mostly on short-term gains, investors can lose a significant part of their return to taxes.~~

~~(4) Performance figures that investment companies generally disclose to their shareholders are net of fees and expenses, but not taxes, and therefore do not represent the impact taxes have on an investor's return.~~

~~(5) This disclosure focuses on how much money investors made before taxes, and not on how much money investors actually got to keep.~~

~~(6) Improved disclosure of tax efficiency would allow shareholders to compare after-tax returns to raw performance, and would permit the investors to determine whether the fund manager tries to minimize tax consequences for shareholders.~~

~~(7) While the investment company prospectus details the average annual portfolio turnover rate, the prospectus may not expressly inform shareholders about the impact the portfolio turnover rate has on total returns.~~

~~**SEC. 3. IMPROVEMENTS IN DISCLOSURE REQUIREMENTS.**~~

~~Within 1 year after the date of enactment of this Act, the Securities and Exchange Commission shall revise regulations under the Investment Company Act of 1940 to require, consistent with the protection of investors and the public interest, improved methods of disclosing in investment company prospectuses and annual reports the after-tax effects of portfolio turnover on investment company returns to investors.~~

SECTION 1. SHORT TITLE.

This Act may be cited as the "Mutual Fund Tax Awareness Act of 2000".

SEC. 2. FINDINGS.

The Congress finds the following:

(1) Taxes can be the single biggest cost associated with mutual funds. The average stock fund investor has lost up to 3 percentage points of return every year to taxes.

(2) The average portfolio turnover rate for an actively managed (nonindex) fund has increased from 30 percent 20 years ago to almost 90 percent today, and average capital gains distributions of growth funds, per share, have more than doubled in the last 10 years.

(3) If a fund's performance is based mostly on short-term gains, investors can lose a significant part of their return to taxes.

(4) Performance figures that mutual funds generally disclose to their shareholders are net of fees and expenses, but not taxes, and therefore do not represent the impact taxes have on an investor's return.

(5) This disclosure focuses on how much money investors made before taxes, and not on how much money investors actually got to keep.

(6) Improved disclosure of the effect of taxes on mutual fund performance would allow shareholders to compare after-tax returns to raw performance, and would permit the investors to determine whether the

fund manager tries to minimize tax consequences for shareholders.

(7) While the mutual fund prospectus details the average annual portfolio turnover rate, the prospectus may not expressly inform shareholders about the impact the portfolio turnover rate has on total returns.

SEC. 3. IMPROVEMENTS IN DISCLOSURE REQUIREMENTS.

Within 18 months after the date of enactment of this Act, the Securities and Exchange Commission shall revise regulations under the Securities Act of 1933 and the Investment Company Act of 1940 to require, consistent with the protection of investors and the public interest, improved disclosure in investment company prospectuses or annual reports of after-tax returns to investors.

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